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Think smarter when investing your cash

John Hearne listens to analysis from financial experts who suggest that a calculated risk can significantly add to income earned from your savings

THERE'S no real value left in Irish deposit accounts.

The best rate in the market right now for a one-year fixed term deposit is 0.9% AER from KBC. Factor in deposit interest retention tax, or Dirt, and that rate falls to 0.37%.

According to a recent survey from Irish Life, almost half of Irish adults have a deposit account with an average of €32,000 saved.

Understandably, 46% of these deposit account holders say their money is not working hard enough.

The alternative is to take some risk and invest it.

While deposit accounts won't make you any money, they have the key advantage of being safe. Under the Government's deposit guarantee scheme, even if your bank or building society goes belly-up, the State will protect €100,000 of your deposit.

Because investing involves giving up that safety and risking your hard earned cash, the first piece of advice is to get advice. Investing can be complicated. Having someone on your side who knows what's what is vital.

There are many different kinds of financial adviser out there. Some are tied agents, who can't shop around but can only sell their employer's investment products. Others are multi-agency intermediaries, who have access to a wider pool of investment products. All must be registered by the Central Bank, so the first step when you're thinking about going to see somebody is to check if he or she is on the central bank's list of registered financial advisers. You can do that at registers.centralbank.ie.

The first time you talk to a financial adviser, they've got to tell you who they're tied to and what kinds of services they offer.

John Groarke, senior pensions product manager with Irish Life, says a good financial adviser will first sit down and take a look at your financial situation in its entirety. Do you have debt for example? If you're paying 20% on a rolling credit card debt or 10% for car finance, it makes far more sense to clear those debts before investing in anything.

He points out too that investing is a long-term commitment. Investment products are more volatile in the short term than the long term, which means that you need to be thinking about a five year timeframe at least. That way, if your investment declines, it has time to recover before you cash out. Before you lock away money for that long, think about what else may be coming up. Will you need to change the car? Is a son or daughter getting married? What about emergencies?

The standard advice is that you should have three months' salary standing by against contingencies.

"There's a natural process to think through here," says Groarke. "Sometimes people say, 'I've got €50,000 on deposit, I want to invest it', but actually when you dig into it, they're probably as well off leaving €20,000 or €25,000 on deposit even through interest rates are poor."

Stephen Barrett runs Bluewater Financial Planning. He says that for him,

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the most important thing to consider before embarking on any kind of investment, is risk.

"Most people think of risk as danger. The market looks at it as opportunity. If you give your money to a company, you share in their returns, and likewise you share in their losses if they lose. Most people think of it only as the danger of losing their money."

Calculating your own risk profile takes time. You need to factor in your income, your previous investment experience as well as your overall attitude to the idea of losing money. There are some great online questionnaires which are really helpful here. They won't tell you what you should do, but they will help illuminate your attitude to risk. Just search for the phrase "How much risk is right for you".

The list of things you can invest in is of course vast, but for our purposes, we're going to zero in on one of the most common: Investment funds. Again, there are many types, but essentially a fund combines money from a large group of investors; you buy units in the fund and the fund manager goes and invests this money — usually in equities, but also in bonds, properties and other assets.

Your financial adviser will advise you about the various options out there, but the basic advice is to avoid putting all your eggs in one basket.

John Groarke again: "It's about spreading your money over either a number of different funds or else putting your money in a fund that's spread over a number of different assets. That might be a mixture of shares, bonds, cash, property...That diversity reduces your exposure to any one individual event."

As he points out, the recent stockmarket volatility in the wake of the Brexit referendum is a case in point. If your investment portfolio was composed solely of UK assets, all would have suffered extreme volatility in the past few weeks. To counter the influence of rogue events, make sure you're not over exposed to one sector or one country.

Unless you sign up to a plan which is structured to allow for steady monthly contributions, the minimum investment amount for most funds tends to lie between €15,000 and €20,000.

Then there are fees. It's possible to find a deposit account that won't charge fees, but investment requires work, so there are always fees. "Fees are a complete minefield," says Barrett. "Between all of the different companies out there, you're looking at more than 20 different charging structures."

As a rule of thumb Barrett suggests you look for a fund with a lower management fee. This is the key charge, the one that the fund manager levies for the work involved in managing your money. It tends to vary between 0.5% and 1.5% of the value of your investment.

"It's hugely important," says Groarke, "to ask the adviser about fees. Find out how much you'll pay to the fund, and how much is the advisor getting for placing the business."

He points out that Central Bank rules require that all fees are clearly laid out in all of the documentation relating to the fund. In addition to management fees, there may be a variety of other charges, which, taken together, can erode the value of your investment. Make sure you know exactly what these charges are before you invest anything.

And of course the Government wants its cut. You're generally charged an exit tax on investment funds. This is charged on any growth in your investment when you withdraw all or part of it, or on certain anniversary dates. The consolation is that if your luck runs out and you lose money, the Government won't charge you anything.

John Groarke, of Irish Life, says it can make senes to clear your credit card debt and car finance debt before investing in anything.

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